

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L TEL AVIV 002107

SIPDIS

E.O. 12958: DECL: 06/01/2016

TAGS: [PGOV](#) [ECON](#) [IS](#) [GOI](#) [INTERNAL](#) [ECONOMY](#) [AND](#) [FINANCE](#)

SUBJECT: COALITION TURBULENCE UNLIKELY TO DERAIL 2006 BUDGET

Classified By: Political Counselor Norman Olsen for reasons 1.4 (b,d).

1. (C) Despite disagreement between PM Olmert and DefMin Peretz over cuts to the defense budget, the Knesset will likely pass the 2006 budget by June 18, the end of the legally mandated 45-day period within which a newly installed government must pass a budget in order to avoid elections. United Torah Judaism (UTJ) Finance Committee Chair Ya'akov Litzman told poloff emphatically May 31 that "the budget will pass and there will not be early elections." He said that he expects a June 4 or 5 Finance Committee vote on the budget, followed by second and third votes in the Knesset by the end of that week. As Minister for Culture and Sports Ophir Pines (Labor) told the media May 30, "I do not see Labor leaving the coalition over the (2006) budget.... (Labor's) real sights are now set on the 2007 budget. The fight for this budget is over and done with." (Note: Consideration of the 2007 budget will only begin after the Knesset's summer recess, ending in October. End note.)

2. (C) The latest budget melodrama erupted over Peretz's dissatisfaction with PM Olmert's proposed NIS 500 million (about USD 100 million) cut in the defense budget, which prompted the seven Labor Party ministers to abstain in a May 30 Cabinet vote approving the budget. Olmert's proposed cuts to defense placed DefMin Peretz in the awkward position of having to oppose what he himself had advocated during the recent election campaign: cuts to the defense budget to enable more social spending. Olmert and Peretz reportedly met privately after the rocky Cabinet session to smooth things over, but Peretz will have to handle the dissatisfaction of Chief of Staff Dan Halutz, who publicly criticized these cuts. Labor MK Colette Avital told poloffs May 30 that the media had overblown the Olmert-Peretz disagreement, but that the Labor Party feels "disrespected" by its senior coalition partner, Kadima.

3. (C) Likud Party Whip Gideon Sa'ar, whose party leads the opposition, also predicted to poloffs March 30 that the 2006 budget would pass, but claimed that coalition cohesion, particularly between Kadima and Labor, would continue to erode. He also speculated that UTJ would not join the 67-MK coalition for now, citing that party's internal divisions over how much of an increase in child allowances to demand. Sa'ar indicated that having UTJ in the opposition deprives Olmert of the added coalition-padding he seeks to lessen Olmert's dependency on the Labor Party. UTJ's Litzman confirmed to poloff May 31 that UTJ is, for now, remaining outside the coalition. He downplayed, however, any divisions within the party or a possible split between the two parties that comprise UTJ. Meretz MK Avshalom Vilan also downplayed any threat to passage of the 2006 budget, but he predicted that the early cracks that have appeared within the coalition could eventually lead to a realignment between Kadima and the right.

Visit Embassy Tel Aviv's Classified Website:

<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's Classified SIPRNET website.

JONES